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RUEFHLC/DEPT OF HOMELAND SECURITY WASHINGTON DC
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NSC FOR SHRIER, LOI
TREASURY FOR OASIA - CUSHMAN, WINSHIP
DEPT FOR DOE HQ FORRESTAL NNSA FOR BSHORTER PASS TO WTOBEY AND
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SUBJECT: EXPORT GROWTH RATE PLUNGING SAYS SHANGHAI CUSTOMS

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¶1. (SBU) Summary: Shanghai Customs Director General Sun Yibiao and Consul General (CG) discussed trade trends, the Megaports initiative, the Container Security Initiative (CSI), and opportunities for further cooperation during an October 31 courtesy call. According to Sun, the growth rate of exports to the United States has halved since the beginning of 2008 although the total volume continues to increase. To cope with limited resources, Shanghai Customs relies on risk management and coordination with other Customs units in the Yangtze River Delta. Sun said Shanghai Customs remains committed to strong cooperation with the Consulate, including such projects as CSI, Megaports, and possible future training opportunities. On resumption of the Megaports project, suspended because of "U.S. arms sales to Taiwan," Sun avoided predicting when collaboration would continue but assured the project will resume as soon as Beijing gives the green light. End summary.

Growth Rate in Exports Steeply Declining

¶2. (SBU) DG Sun said the rate of export growth has markedly declined since the beginning of 2008; however, the total volume of exports continues to climb. From January through September, Shanghai Customs processed a total export and import volume of USD 1.96 trillion worth of goods, and container throughput was roughly 20 million TEU. (Note: As a point of comparison, total container throughput for 2007 was 26.15 million TEU. End note.) Part of the total trade volume processed by Shanghai Customs includes the city of Shanghai's total trade volume, which reached approximately USD 400 billion during the first nine months of 2008. Shanghai Customs tariff revenue for the period amounted to RMB 147.7 billion (USD 21.7 billion).

¶3. (SBU) The rate of export growth to the United States has been particularly hard hit, DG Sun said. The current growth rate of exports to the United States is 11.6 percent, compared with 22 percent from the same period in 2007. The growth rate of imports from the United States continues to rise; it currently stands at 15 percent, compared with an 11.6 percent growth rate during the same period in 2007. Shanghai Customs processed a total trade volume of USD 40.9 billion with the

United States over the first nine months of this year. Total exports were USD 28.3 billion, and total imports were USD 12.5 billion.

14. (SBU) Sun added that these numbers do not yet fully reflect the impact of the financial crisis, which is bound to have an even heavier toll on global trade. He estimated that although the rate of import growth is much higher than that of exports, the growth of imports into China will also slow as Chinese consumers and companies begin to feel the pinch. There is already a decline in the component parts being imported for assembly. Overall decrease in demand for imports will be "next year's problem" said Sun. Sun also noted a sharp increase in shipments returned to China because companies on the receiving end had gone bankrupt.

Building on a Strong Relationship

15. (SBU) Sun noted the strength of ties between Shanghai Customs and the Consulate and said he hopes to build on the already strong relationship. Shanghai Customs values input from the U.S. business community and U.S. Consulate on how to improve its operations. In addition, Shanghai Customs appreciates opportunities for formal training opportunities, noting the success of the TDA-funded IP training that took place during three separate sessions at Shanghai Customs College between November 2006 and August 2008.

Customs Committed to Container Security Initiative

16. (SBU) Sun emphasized that Shanghai Customs is committed to continued cooperation on the Container Security Initiative (CSI), which targets high risk containers bound for the United States. Since the inception of the program in 2005, Shanghai

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Customs has received approximately 750 requests for inspection from DHS. Of the total number of requests, Shanghai Customs has carried out 530 inspections (roughly 70 percent). Sun added that Shanghai Customs endeavors to respond to each request, but some containers have already left port by the time the request is received. In Sun's view, the current system works well and is a symbol of the good cooperation between the two sides.

Megaports - Waiting on the Green Light from Beijing

17. (SBU) CG pressed Sun on the resumption of the Megaports initiative in Shanghai, which had been put on hold in October because of "U.S. arms sales to Taiwan." Sun acknowledged the importance of the project in Shanghai as the pilot project for China; however, he is waiting for approval from the General Administration of China Customs (GACC) before the project can get underway again. Sun gave no further indication of when the project could resume. (Note: The initiative began its implementation phase in January 2008, and there have already been three meetings between Shanghai Customs/GACC and DOE officials. The October meeting, which had been postponed once already due to the Summer Olympics, was set to finalize details on installation of radiation detection equipment. End note.)

6 Percent of GACC Staff for 25 Percent of China Exports

18. (SBU) Sun emphasized Shanghai's significant role in China's trade with the outside world, processing over 25 percent of China's imports and exports. Not only does it handle trade for the greater Shanghai metropolitan area, but also the entire Yangtze River Delta. It is also China's largest customs operation with 46 sections and 3,000 officers, which constitutes about 6 percent of GACC's total staff. To maximize the effectiveness of limited resources, Sun said Shanghai Customs is pushing for greater integration with other Customs units, particularly in the Yangtze River Delta. Key to this effort is

the e-clearance system, allowing exporters to clear goods at other Customs units in the Delta region before they reach Shanghai for shipment. Shanghai Customs is also one of the oldest Customs units in China, dating back 325 years.

Transparency and Trade Facilitation Highest Priority

¶9. (SBU) Sun emphasized that Shanghai Customs works to be transparent in the implementation of all its rules, regulations and procedures, as well as follows WTO guidelines. It also conducts risk management according to international best practices and employs a risk classification system for companies that export and import. The focus of the system is both on companies and commodities, both of which are classified according to risk. Companies are divided into three categories according to their "credibility". Those that are deemed to have the highest degree of credibility are given a higher degree of "trade facilitation." Sun emphasized the effectiveness of the system, noting that from January to September, Shanghai Customs investigated over 2,000 smuggling cases, valued at approximately USD 450 million.

¶10. (SBU) Part of its efforts to be transparent and improve services includes cooperation with such non-governmental agencies as AmCham Shanghai. Shanghai Customs makes an extra effort to communicate with exporters and importers and maintain consistency between all transactions. (Comment: The U.S. business community consistently applauds Shanghai Customs for its outreach efforts but note risk management efforts still lag somewhat behind international norms. Shanghai Customs is also known for being one of the most consistent customs units in China for its implementation of valuation and clearance procedures. End Comment.)

¶11. (SBU) Sun also took pride in Shanghai Custom's trial run with a paperless clearance system. Sun said the trial run had been approved by Beijing and was currently used only on outbound air and sea freight on a limited basis. This new system has

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thus far been successful in streamlining the clearance system and is now being considered for import clearance as well. Once Beijing deems the test on paperless clearance for exports successful, it will be expanded to include imports. The paperless clearance system is part of Shanghai Customs goals of better trade facilitation, Sun said.
CAMP